Proposal: Single Assessment Ratio for Voter-Approved Bonds and Overrides

PROPOSAL

On a prospective basis, any voter-approved (secondary) property tax levies to fund debt service on bonds or for budget overrides for counties, cities and towns, community college districts and school districts would be financed using a single assessment ratio for all classes of property. The proposal would not change any existing or future property tax levies that have already been approved by the voters. Rather, it would require levies approved by voters, as of a certain specified date, to be based on a single assessment ratio.

Please note: Actual tax burdens would not vary based upon the set ratio, as long as it is the same for each class. In other words, a ratio of 100%, 25%, 18%, 10%, or any other percentage is immaterial.

The following examples assume a school district whose boundaries contain $200 million of full cash value (FCV) split evenly between residential and business property, and that the school district requires a levy of $1,000,000.

	FCV	Assessment ratio	Assessed value	Property Tax Rate	Tax
home	$100,000,000	25%	$25,000,000	$2.00	$500,000
business	$100,000,000	25%	$25,000,000	$2.00	$500,000

	FCV	Assessment ratio	Assessed value	Property Tax Rate	Tax
home	$100,000,000	18%	$18,000,000	$2.7778	$500,000
business	$100,000,000	18%	$18,000,000	$2.7778	$500,000

Changing the assessment ratio results in a higher rate, however each taxpayer's actual tax would not change. In this example (again levying $1 million), an assessment ratio of 10% would result in a $5.00 rate, but the tax paid would remain the same.

ADMINISTRATION OF PROPOSAL

County assessors and the department of revenue would be required to maintain two sets of secondary assessed values: one that continues the current assessment ratios for the duration of those bonds and overrides already authorized by voters; a second set from and after the enactment of a single assessment ratio for any future voter authorized taxes.

IMPACT OF EXISTING REVENUE SYSTEMS

The impact of the change of voter behavior is difficult to predict. Clearly, the tax considerations for the homeowner/voter may influence their willingness to approve new bonds and overrides.

The changes this proposal would have on tax rate calculations for future debt service or overrides would vary between jurisdictions depending upon the proportions of different classes of property that make up the jurisdiction's total taxable value.

Under the current system, for example, a $1 million levy on Maricopa County's value (which would apply for the community college district and other countywide entities) under the current system would result in a rate of 0.0041 per $100 of assessed value. Assuming a 10% assessment ratio on all classes, the rate required to levy $1 million would increase 38.9% to 0.0057 per $100.

The Gilbert Unified School District, by comparison, would need a rate of 0.1290 to levy a million dollars using a 10% assessment ratio on a property. That is 23.5% higher than the 0.1044 that would be required under the current system.

A million-dollar levy for Prescott Unified would need a rate of 0.2033 currently. If a uniform 10% assessment ratio were applied, that rate would go to 0.2584, a 27.1% change.

Taking a municipal example, the City of Tucson currently needs a rate of 0.0439 for every million-dollar levy. The rate requirement would increase 41.3% to 0.621 on a single 10% ratio.

Finally, to demonstrate the impact on a jurisdiction with disproportionately high levels of business property, Joseph City Unified's rate requirement for $1 million would increase 140.4% (from 1.0068 to 2.4207 per $100) if the business classes were brought to a 10% ratio.

See Attachments 1 through 5 for more detail.

COST TO ADMINISTER THE PROPOSAL

The proposal would not change current assessment procedures, processes. However, a separate category of assessed value (AV) would need to be calculated by applying the new single assessment ratio. Those values would then be tracked separately. This is similar to changes made when the Students FIRST legislation was enacted, requiring a distinction between school district debt limits for "class A" versus "class B" bonds.

POLICY CONSIDERATIONS

Equity

Arizona's current property tax system that applies varying assessment ratios to nine classifications of property in order to shift the distribution of the tax burden from one class to another fails most equity tests. As has been repeatedly documented, the system results in large inequities in taxes between residential and business property. Arizona's commercial and industrial property taxes have been documented to be some of the highest in the country.

The following example using two hypothetical properties demonstrates the impact of the current assessment ratio for residential and business (assuming a rate of $1.00 per $100 of assessed value and that each property has a full cash value [FCV] of $500,000).

	FCV	Assessment ratio	Assessed value	Property Tax Rate	Tax
business	$500,000	25%	$125,000	$1.00	$1,250
home	$500,000	10%	$50,000	$1.00	$500

In 2002, as the following table shows, commercial and industrial property comprised 23% of the total taxable full cash value of the state and paid 44% of the property taxes. Meanwhile, owner-occupied residential property made up nearly 59% of the state's taxable value but paid 40% of the taxes levies statewide. The effective tax rate for commercial and industrial property is nearly three times that for residential property.

2002 Statewide Average Effective Property Tax Rates

Class	Description	Assessment Ratio	Total Taxable Full Cash Value	Percent of Total FCV	Total Taxes Paid	Percent of Total Paid	Effective Rate
1	Commercial, Industrial, Utilities, & Mines	25%	$63,327,870,879	23.47%	$1,844,726,209	44.24%	2.91%
2	Agricultural & Vacant Land	16%	19,731,879,936	7.31%	317,242,001	7.61%	1.61%
3	Owner-occupied Residential	10%	158,164,295,799	58.62%	1,658,758,696	39.78%	1.05%
4	Rental Residential	10%	24,353,520,202	9.03%	306,948,518	7.36%	1.26%
5	Railroad, Private car, airline flight	21%	1,096,016,250	0.41%	26,554,841	0.64%	2.42%
6	Residential historic, Enterprise zones	5%	2,571,451,913	0.95%	15,025,509	0.36%	0.58%
7	Commercial Historic	1%	20,497,803	0.01%	445,152	0.01%	2.17%
8	Rental Residential Historic	1%	563,360,325	0.21%	109,584	0.00%	0.02%
9	Possessory Interests	1%	1,451,157	0.00%	1,823	0.00%	0.13%
Total			$269,830,344,264	100.00%	$4,169,812,332	100.00%	1.55%

The use of multiple assessment ratios contributes significantly to Arizona's high ranking in comparative studies on property tax burdens. For example, while homeowner property ranked in the bottom half (31st), industrial property in Arizona ranks as high as 3rd nationally in a comparison of property tax burdens published by the *Minnesota Taxpayers Association* (see ***Attachment 6***).

Arizona's use of multiple assessment ratios also exacerbates inequities in the distribution of property wealth within school districts. Districts with large amounts of commercial or industrial property often have much higher assessed value per pupil than districts comprised primarily of residential property.

Economic Vitality

The practical effect of the high property tax burden is that few capital-intensive manufactures are willing to locate in Arizona without some form of tax break. Many of the recent manufacturing plants have been placed in foreign trade or enterprise zones (class 6) which are taxed at only 5% of value. While the equalizing effects of this proposal will take several years, it will eventually

provide some reductions to the effective tax rates on business property, thereby improving Arizona's position for business location.

Volatility
See the discussion above on the impact on existing revenue systems.

Simplicity
Arizona has one of the most complicated property tax systems in the country. One of the features most responsible for that complexity is the classification system and its differential determinations of taxable values. The proposal will add a degree of complexity in the near term. However, as debt and overrides are paid off or expire under the current system, those bonds and overrides authorized under the proposed system would contribute significantly in the move toward a more simple and accountable system.

The current subsidy afforded residential property taxpayers undermines accountability for local government spending and allows proponents to downplay the true cost of bonds and overrides in the debate that surrounds the public vote. This proposal would add an element transparency and accountability to the public debate upon which voter-approval requirements are prefaced.

ECONOMIC IMPACT
This proposal would, in time, result in a meaningful impact on equalizing property tax burdens between business and residential classes of property.

Attachment 6

Residential vs. Industrial Property Taxes Rankings

(Payable 2000 – Largest Urban Areas)

Residential Property Taxes

$150,000 Land and Building
$50,000 Fixtures

Rank	State	Total Net Tax	Total ETR
50	Alabama	$ 887	0.444%
19	Alaska	2,533	1.266%
31	**ARIZONA**	**1,741**	**0.871%**
30	Arkansas	1,742	0.871%
29	California	1,788	0.894%
49	Colorado	977	0.489%
15	Connecticut	2,989	1.495%
32	Delaware	1,694	0.847%
48	District of Columbia	1,005	0.503%
10	Florida	3,278	1.639%
42	Georgia	1,339	0.670%
51	Hawaii	378	0.189%
27	Idaho	1,866	0.933%
1	Illinois	4,810	2.405%
20	Indiana	2,515	1.258%
14	Iowa	3,041	1.520%
37	Kansas	1,531	0.765%
22	Kentucky	2,197	1.099%
43	Louisiana	1,246	0.623%
9	Maine	3,432	1.716%
12	Maryland	3,143	1.571%
38	Massachusetts	1,473	0.737%
2	Michigan	4,453	2.226%
23	Minnesota	2,110	1.055%
28	Mississippi	1,862	0.931%
24	Missouri	2,055	1.028%
41	Montana	1,386	0.693%
17	Nebraska	2,688	1.344%
35	Nevada	1,597	0.798%
3	New Hampshire	4,116	2.058%
5	New Jersey	4,047	2.024%
40	New Mexico	1,399	0.700%
44	New York	1,244	0.622%
33	North Carolina	1,693	0.846%
16	North Dakota	2,926	1.463%
25	Ohio	2,054	1.027%
36	Oklahoma	1,581	0.790%
13	Oregon	3,051	1.526%
6	Pennsylvania	3,927	1.964%
8	Rhode Island	3,584	1.792%
45	South Carolina	1,139	0.570%
18	South Dakota	2,680	1.340%
21	Tennessee	2,399	1.199%
4	Texas	4,076	2.038%
39	Utah	1,442	0.721%
11	Vermont	3,199	1.600%
26	Virginia	1,977	0.989%
34	Washington	1,641	0.820%
47	West Virginia	1,020	0.510%
7	Wisconsin	3,812	1.906%
46	Wyoming	1,062	0.531%
	AVERAGE	**$ 2,271**	**1.136%**

Industrial Property Taxes

$25,000,000 Land and Building
$12,500,000 Machinery and Equipment
$10,000,000 Inventories $2,500,000 Fixtures

Rank	State	Total Net Tax	Total ETR
42	Alabama	$ 528,200	1.056%
34	Alaska	674,813	1.350%
3	**ARIZONA**	**1,542,236**	**3.084%**
38	Arkansas	602,753	1.206%
45	California	500,000	1.000%
27	Colorado	762,762	1.526%
4	Connecticut	1,513,400	3.027%
49	Delaware	434,732	0.869%
19	District of Columbia	997,900	1.996%
13	Florida	1,059,001	2.118%
37	Georgia	619,995	1.240%
51	Hawaii	224,468	0.449%
32	Idaho	721,177	1.442%
1	Illinois	1,967,725	3.935%
5	Indiana	1,430,149	2.860%
11	Iowa	1,128,649	2.257%
8	Kansas	1,182,137	2.364%
30	Kentucky	728,510	1.457%
9	Louisiana	1,165,072	2.330%
20	Maine	960,000	1.920%
31	Maryland	721,680	1.443%
25	Massachusetts	855,250	1.711%
2	Michigan	1,547,358	3.095%
10	Minnesota	1,142,434	2.285%
23	Mississippi	892,042	1.784%
12	Missouri	1,062,787	2.126%
43	Montana	506,873	1.014%
28	Nebraska	733,906	1.468%
48	Nevada	435,606	0.871%
33	New Hampshire	686,025	1.372%
18	New Jersey	1,016,155	2.032%
44	New Mexico	500,407	1.001%
15	New York	1,025,703	2.051%
46	North Carolina	461,653	0.923%
41	North Dakota	549,371	1.099%
24	Ohio	887,638	1.775%
36	Oklahoma	650,123	1.300%
26	Oregon	813,600	1.627%
16	Pennsylvania	1,020,413	2.041%
7	Rhode Island	1,213,301	2.427%
14	South Carolina	1,042,192	2.084%
35	South Dakota	651,015	1.302%
21	Tennessee	950,609	1.901%
6	Texas	1,417,550	2.835%
39	Utah	569,959	1.140%
17	Vermont	1,018,642	2.037%
40	Virginia	554,704	1.109%
47	Washington	454,558	0.909%
22	West Virginia	901,388	1.803%
29	Wisconsin	733,030	1.466%
50	Wyoming	342,700	0.685%
	AVERAGE	**$ 864,752**	**1.730%**

Source: Minnesota Taxpayers Association